

Keystone Realtors Limited



IPO Note

12th November 2022

Keystone Realtors Limited

Issue Opens On November 14, 2022	Issue Closes On November 16, 2022	Price Band (INR) 514-541	Issue Size (INR Mn) 6,033-6,350	Rating SUBSCRIBE
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Keystone Realtors Limited (Keystone), known as Rustomjee, is a significant player in the real estate industry. The company predominantly engages in real estate building, development, and other related businesses in India. Keystone Realtors has developed 20.22 mn square feet of high-value and affordable residential areas, premium gated estates, townships, business parks, retail spaces, schools, historic landmarks, and other real estate projects. Being part of the business model, the company enters into joint development agreements, redevelopment partnerships with landowners, developers, or society, and slum rehabilitation projects, which require less upfront capital investment than outright land acquisition. In addition, the company has adopted an integrated real estate development model for each stage of the property development life cycle, beginning with business development and ending with execution.

OFFER STRUCTURE

Particulars		IPO Details		Indicative Timetable	
No. of shares under IPO (#)	1,17,37,523			Offer Closing Date	November 16, 2022
Net offer (# shares)	1,17,37,523			Finalization of Basis of Allotment with Stock Exchange	On or about 21 st Nov’ 2022
Price band (INR)	514-541			Initiation of Refunds	On or about 22 nd Nov’ 2022
Post issue MCAP (INR Mn.)	58,533-61,608			Credit of Equity Shares to Demat accounts	On or about 23 rd Nov’ 2022
				Commencement of Trading of Eq.shares on NSE	On or about 24 th Nov’ 2022

Source: IPO Prospectus

Source: IPO Prospectus

Issue	# Shares	INR in Mn	%	Objects of the Offer: The net proceeds will be utilized for the following purpose	
QIB	58,68,762	3,175	50%	Repayment/ prepayment, in full or part, of certain borrowings availed by the company and/or certain of its Subsidiaries.	
NIB	17,60,628	953	15%	Funding acquisition of future real estate projects and general corporate purposes.	

Shareholding Pattern		Pre-Issue (%)	Post-Issue (%)
Promoters & Promoters Group		96.7%	87.9%
Others		3.3%	12.1%
Total		100.0%	100.0%

Source: IPO Prospectus; calculations based on upper band

Source: IPO Prospectus

Particulars (In INR Mn)*	FY20	FY21	FY22	Q1FY23
Revenue	12,115	8,487	12,694	1,686
EBITDA**	1,360	1,136.6	1,793.4	45
EBITDA Margin	11.2%	13.4%	14.1%	2.7%
PAT	145	2,318	1,358	42
PAT Margin	1.2%	27.3%	10.7%	2.5%
Net Worth	2,801	8,238	9,631	10,848
RONW	5.1%	38.8%	15.0%	1.9%

Source: IPO Prospectus, * Restated Statement; **Calculated excluding other income

Keystone Realtors Limited

Company Overview

Keystone Realtors Ltd (Keystone) is one of the prominent real estate developers (in terms of absorption in a number of units) in the micro markets it is in. It commands a market share of 28% in Khar, 23% in Juhu, 11% in Bandra East, 14% in Virar, 3% in Thane and 5% in Bhandup in absorption (in units) from 2017 to 2021. As of June 30, 2022, it has 32 Completed Projects, 12 Ongoing Projects and 21 Forthcoming Projects across the Mumbai Metropolitan Region (MMR), including a comprehensive range of projects under the affordable, mid and mass, aspirational, premium and super premium categories, all under its Rustomjee brand. As of June 30, 2022, it has developed 20.22 mn square feet of high-value and affordable residential buildings, premium gated estates, townships, corporate parks, retail spaces, schools, iconic landmarks, and other real estate projects.

It has a diversified suite of projects across a wide range of price points and a presence in several micro markets. It has experience developing lifestyle projects, high-value standalone buildings, gated communities and fully integrated townships, re-developments and stalled projects. It strategically introduces differentiated offerings and corresponding amenities based on the needs of the location and community to maximise its revenue.

Over the years, it has implemented designs based on customer insights and eco-friendly construction technologies to deliver modern lifestyle solutions and a diverse range of projects. Some of its notable projects include Rustomjee Elements, a large gated community in Upper Juhu, Mumbai; Rustomjee Paramount, a signature complex in Khar, Mumbai; Rustomjee Seasons, a 3.82 acres gated community in Bandra Annexe, Mumbai; Rustomjee Crown, a 5.75 acres land parcel for high-end development at Prabhadevi, South Mumbai, consisting of three high-rise towers.

Its projects include features for entertainment for the family, such as an approximately 150,000 square feet clubhouse at its Virar Global City project, a 6.22 acres podium at its Thane project, an 11.7 acres amusement park at its Virar Global City project, Leon's World, which is an interactive play space for children and adults at its Rustomjee Urbania project. The company considers gated communities as the future of living and strives to create "nurturing spaces" to deliver convenience, community and comfort to its customers. It emphasizes understanding the demographics it caters to, their needs, traditions and lifestyles.

As part of its business model, it focuses on entering into joint development agreements, redevelopment agreements with landowners or developers or societies, and slum rehabilitation projects, which require lower upfront capital investment than the direct acquisition of land parcels. Its business model allows it to minimize the upfront capital expenditure compared to the direct purchase of land parcels, which ensures that its capital allocation is balanced and calibrated, allowing it to generate revenue with lower initial investments. With its experience, it has been able to institutionalize the development process, which includes managing the relationships with all stakeholders in the project. In addition, the company has adopted an integrated real estate development model, with capabilities and in-house resources to execute projects from its initiation to completion. It has developed in-house competencies for every stage of the property development life cycle, commencing from business development, which involves identification of land parcels and the conceptualization of the development, to execution, comprising planning, designing and overseeing the construction activities, marketing and sales.

As of June 30, 2022, it had 1,542 channel partners who present the Rustomjee portfolio to their customers and drive customers traffic to its projects. In addition to its in-house competencies, it also leverages the expertise of external specialists to match its wide range of operations, such as architects, interior designers, landscaping experts, engineers and building services consultants for developing and managing its projects.

The company leverages technology in its operations, including project planning and execution, customer relationship management and marketing. For instance, it uses 3-dimensional Building Information Modelling (BIM) software for model-based construction. It visualizes projects in pre-construction and allows for better coordination among in-house teams, contractors and external consultants for greater productivity and cost efficiency. It extensively uses virtual reality and digital experience for project walkthroughs to provide an immersive experience to its customers. It has implemented a cloud-based Customer Relationship Management (CRM) software that helps efficient customer lifecycle management. It obtains a better understanding of customer needs to service the leads and convert leads into transactions. In addition, it has developed a channel partner portal that allows it to efficiently work with the channel partners, providing access to relevant marketing collateral and assisting them with the generation of leads and customers.

The company endeavors to ensure that its projects provide luxury while being environmentally sustainable. It assesses the environmental impact of its projects and has adopted a comprehensive approach to sustainable development from an early design phase through the construction period. For instance, it uses solar panels in its projects to generate electricity for common areas and reduce reliance on non-renewable sources. It has entered into an agreement with Tata Power to deploy electric vehicle chargers across various projects under green initiatives. Its township at Thane, Rustomjee Urbania, is certified by Indian Green Building Council (IGBC), and its Natraj By Rustomjee commercial project is Leadership in Energy and Environmental Design (LEED) certified.

Keystone Realtors Limited

Industry Overview:

- The residential real estate sector in India has witnessed several changes in market conditions because of demonetization, the NBFC liquidity crisis of 2018 and the implementation of RERA and GST in this period. The overall effect is that the sector has moved towards more transparency and being more organized than in years earlier of these reforms were taking place.
- Despite the spiralling COVID-19 pressure across the country, the Indian residential sector made a significant comeback in 2021, with absorption rebounding to 171% compared to 2020. The absorption was recorded at 2.61 lakhs units during 2019, which depicts 2021 absorption has attained approximately 90% of the absorption recorded in 2019, demonstrating a steady recovery compared to 2020. The Mumbai Metropolitan Region (MMR), Pune, Bengaluru, Hyderabad, the National Capital Region, Chennai and Kolkata recorded absorption of approximately 2.37 lakh units in 2021 compared to 1.38 lakh units in 2020.
- New launches have jumped by 185% from 127,959 units in 2020 to 236,693 units in 2021.
- The unsold inventory across the top 7 cities in India has remained stable on a yearly basis, i.e., for 2021 (638,192 units) as compared to unsold inventory in 2020 (638,015 units).
- Hyderabad witnessed the highest yearly increase in the available inventory by 171%, whereas MMR, NCR, and Bengaluru saw an annual decline in the available inventory by 10%, 5% and 4%, respectively.
- Supply and absorption declined in 2017 in the MMR, primarily because of the impact of demonetization in Q4FY17, RERA and GST. Post-2017, the absorption of units grew steadily and outpaced the supply of units. In 2020, the units launched were lower than the units sold. Until Q3 2020, only select developers were launching projects with large MMR inventory sizes, and the buyers who visited sites before the lockdown was going ahead with their buying decision.
- Q4FY20 was better than earlier quarters on the back of the festive season, low-interest rates and an improving employment scenario. Since the announcement of a reduction in the stamp duty by the Government of Maharashtra with effect from September 1, 2020, housing sales have continuously increased MoM. There has been a steady increase in launches as well as absorption in 2021 as compared to 2020. It shows a further improvement in the residential market dynamics of MMR.
- The overall unsold inventory gradually decreased from 2017 and is at its lowest in the last six years because of strong absorption trends compared to the launches in those years.
- There has been a stagnancy in the Capital Values of Overall Market of MMR with a minimal price appreciation from 2017 to 2021 at the rate of approximately 1% on a yearly basis. In 2020, the overall base prices have remained stagnant in comparison with 2019. However there has been an appreciation in prices in 2021 due to recovery in residential markets in MMR.
- Capital values in MMR has been relatively on a higher side among the top seven cities of India. However, within MMR, significant variation in capital values have been observed across various micro markets.
- The annual absorption in MMR in 2021 is almost nearing absorption levels recorded in 2019; it is expected that from 2022 onwards, there will be a gradual increase in absorption until 2026.
- Rustomjee has the maximum presence of projects in Mumbai - MCGM level, Thane and Extended Western Suburbs. MCGM area comprises micro-markets of South-Central Mumbai, Western Suburbs and Eastern Suburbs.
- Supply and Absorption trends have shown an overall improvement in MCGM from 2017 to 2021, with new launches in 2021 matching the 2017 levels and absorption in 2021 matching the pre- COVID-19 2019 levels.
- Unsold inventory has witnessed an overall reduction from 2017 to 2021 due to higher absorption levels in the MCGM residential market. This has a bearing on the inventory overhang levels and saw an overall decrease except in 2020 because of the COVID pandemic.
- South Central Mumbai micro-market has accessibility to office locations in Nariman Point, Fort, Colaba and Cuffe Parade and improved social and physical infrastructure. It is strategically connected to various parts of Mumbai via Eastern Freeway, Central Railway Line and Western Railway Line, further enhancing the micro-market demand.
- New launches in South Central Mumbai have shown an increase from 2017 to 2018, with a decrease in 2019 and a reduced number of launches in 2020 due to COVID-19; however, the launches gradually increased in 2021 from 2020 levels.
- The period from 2017 to 2018 witnessed a continued supply of units in the Western Suburbs micro-market surpassing the absorption of units. However, from 2019 to 2020, the absorption of units was higher than the supply of units.
- The developer's reputation and brand name are key factors contributing towards the sale of projects in this micro-market. 2021 witnessed a higher number of new launches, which were to be launched in 2020, and absorption levels almost doubled compared to 2020.
- From 2017 to 2021, capital prices appreciated steadily in the range of 2% to 3%, year-on-year, in this micro-market. In 2020, the overall base prices at the micro-market level remained stable, with a price appreciation in 2021 due to improving sentiments for real estate in MMR.
- New launches in the Eastern Suburbs micro-market gradually reduced from 2017 to 2018, with an increase in 2019. The sale of units in the micro-market remained stable from 2017 to 2019 with a steady rise; however, due to the COVID-19 pandemic, 2020 witnessed limited sales.
- 2021 saw higher absorption levels compared to 2020, with new launches doubling as compared to 2020. Property prices in this micro-market have been stable since 2017, and new launches by prominent developers have been within the range of the overall capital values of the micro-market.
- Thane has witnessed high launches by prominent developers from 2017 to 2019, with reduced launches in 2020 and 2021 as developers delayed the launches to counter the effects of the COVID pandemic. While there have been spikes in supply, the average absorption levels have been steady at approximately 10,000 units since 2017.
- The overall prices in the Thane micro-market have remained stable from 2017–2021, and the capital prices in the Thane micro-market have primarily been stable with minimal appreciation.

Keystone Realtors Limited

INVESTMENT RATIONALE

Well established customer-centric brand in the Mumbai Metropolitan Region:

The company is one of the prominent real estate developers (in terms of absorption in several units) in the micro markets that it is present in, namely Juhu, Bandra East, Khar, Bhandup, Virar and Thane, and it is able to garner premium pricing in the MMR micro-markets where its projects are located. The company believes that its presence in the MMR market for two and half decades, with its construction quality, execution and delivery capabilities, has enabled it to establish the Rustomjee brand in the MMR. The company's brand image also encourages real estate development industry stakeholders to prefer partnering with it, particularly for re-development and stalled projects. Over the last decade, its reputation as a re-development expert based on its vast experience undertaking re-development projects has led to the sourcing of additional projects. The company believes that its continued engagement with customers, even after the sale of units and delivery of possession, has further strengthened its brand. Therefore, its offerings include post-handover and post-development services such as furnishing, interior designing and execution services, addressing miscellaneous customer needs such as leasing out apartments and managing lease renewals and maintenance, and facility management services.

Among MMR's leading residential real estate developers, with a well-diversified portfolio and a strong pipeline:

The company has experience developing lifestyle projects, high-value standalone buildings, gated communities, fully integrated townships, redevelopments, and stalled projects. It is active in the sub-markets such as Juhu, Bandra East, Bandra West and Khar concerning redevelopment projects. It is one of the prominent real estate developers in the redevelopment segment in terms of supply (in terms of the number of units) in the micro markets that it is present in, wherein it commands a market share of 39% in Khar, 14% in Bandra East and 14% in Juhu from the overall redevelopment supply between 2017 and 2021. The company is one of the leading real estate developers who are able to command over 50% price premium in the markets of Juhu, Bandra East and Khar, as compared to the average price of the Western Suburbs micro-markets. Further, through the life of its projects, it generally observes an increase in the value of its projects which may be correlated to the customers' perception and appreciation for its projects.

Keystone's core objective for townships and gated communities is to provide a secure, vibrant neighborhood where families are encouraged to spend time together in such spaces and cultivate a sense of bonding with the community. It also implements future-ready designs where the apartment is designed for all age groups and incorporates senior-friendly additions such as grab bars, anti-slippery tiles and wheelchair-size doors in at least one bedroom and one bathroom. In the past three fiscals, of the 19 new buildings launched by the company, 47.2% of units aggregating INR 13,555.1 mn were sold within six months from the date of launch and 58.0% of units aggregating INR 17,494.3 mn were sold within the first year (sales considered until August 31, 2022, for eight new buildings which have not completed twelve months of launch).

Asset-light and scalable model resulting in profitability and stable financial performance:

As part of its business model, the company focuses on entering into joint development agreements and re-development agreements with landowners, developers, or societies, which requires lower upfront capital expenditure than the direct acquisition of land parcels. It identifies land for development or re-development based on a detailed feasibility study for the relevant project, including factors such as location, price, purpose and design impediments.

It has maintained its low capital investment through two key approaches. First, its business model allows it to optimize the upfront capital expenditure compared to the direct acquisition of land parcels, as such projects does not require the company to incur a cost for land purchase other than certain refundable deposits and approval costs. As Mumbai has witnessed a limited supply of sizeable land for any greenfield development, its entry into projects through this strategy allows it to avoid intensive upfront capital investments. The company adopts a disciplined approach and abides by the ceilings of permissible capital commitments for each project. By placing great emphasis on achieving a better return on equity and return on capital employed through maintaining low upfront capital expenditure, it can minimize pre-launch investments, ensuring that its capital allocation is balanced and calibrated. Keeping investments low also increases its ability to manage project risks effectively.

The development approach enables it to simultaneously undertake multiple projects and reduce project risks associated with land acquisition. For instance, the company enters later stages for slum rehabilitation projects after relocation, land acquisition, approvals, or risk-heavy processes have been completed. These arrangements enable it to focus on an asset-light business model, reducing its dependence on debt financing, strengthening its balance sheet and reducing the leverage ratio.

The company strives to maintain an optimal capital structure with prudent leverage and a conservative debt policy. Its ability to generate consistent cash flows from operations allows it to operate on lower leverage. As of June 30, 2022, it maintained a gross debt-to-equity ratio of 1.36x.

Capability to execute projects with in-house functional competence:

The company has adopted an integrated real estate development model, with capabilities and in-house resources to execute projects from its initiation to completion. It has developed in-house competencies for every stage of the property development life cycle from right from the initial business development stage.

Keystone Realtors Limited

INVESTMENT RATIONALE

It relies on in-house experts' domain knowledge, experience and functional expertise to deliver quality projects in compliance with regulations. The company leverages its strong brand and reputation, development track record, industry knowledge and know-how of the regulatory environment in the MMR, and expertise in designing amenities to deliver projects that meet the demands of its customers. In addition to in-house competencies, it also leverages the expertise of external specialists to match its wide range of operations, such as architects, interior designers, landscaping experts, engineers and building services consultants for developing and managing its projects.

Strong stakeholder management capabilities across the project development spectrum:

As part of its business model, the company enters into joint development agreements, joint ventures, and re-development agreements with landowners, developers, or societies who rely on its relationship with other stakeholders. Projects generally require collaboration and coordination between channel partners for sales and marketing, financial institutions, customers, vendors, and contractors. The company's development and execution capabilities, expertise, marketing strengths, and brand equity deliver value for all stakeholders in achieving financial objectives. From inception until June 30, 2022, it has entered into joint ventures/ joint development arrangements or agreements/development agreements with landowners, residential societies, other builders and financial institutions for 57 projects. Keystone works with existing members across categories as part of its re-development projects, including assisting slum dwellers with rehabilitation and high-net-worth individuals to up-sell its offerings.

Technology-driven operations improve operational efficiency while enhancing customer experiences:

The company leverages technology as an enabler in its operations, including project planning and execution and customer relationship management. It uses a 3-dimensional BIM software for model-based construction to maximize productivity and cost estimation across all its projects. BIM visualizes projects in pre-construction and allows for better coordination among in-house teams, contractors and external consultants because of clash detection abilities, where one can detect design flaws earlier and improve the scheduling of construction material. The virtual model addresses several parameters associated with time, cost and critical paths while also accounting for contingencies and reasonable wastages, resulting in more predictability in project execution and better planning and monitoring from site heads which ensures a reduction of wastage and higher efficiency of manpower usage. It has also implemented SAP enterprise resource management ("ERP") to assist with data management, analysis and forecasting, resulting in performance efficiency. The combined implementation of ERP and BIM systems allows vendors and contractors to receive real-time status updates of their orders, including an automated and digitized invoice settlement process that details the status monitoring system, which tracks balance receivables, material delivery and work done.

Strong focus on sustainable development:

The company assesses the environmental impact of its projects and has adopted a comprehensive approach to sustainable development from an early design phase through the construction period. Its in-house architecture and design team works closely with its construction and execution team to create a comfortable living space for its inhabitants. The smart designs are also aimed at being energy efficient. It uses low-volatile organic compounds such as iodized windows and sustainable materials. It has also implemented waste-water management systems to minimize water usage for flushing, gardening and other common uses in the project layout and all the schools it has built. In addition, it has a fully-functional and operational rain-water harvesting system. The company has implemented environmentally friendly building concepts in many projects and aims to increase green cover in future constructions to minimize net carbon impact.

Highly qualified & experienced promoters & key personnel:

Keystone is led by experienced Promoters and a professional senior management team, who provide the direction for its growth. Senior management personnel of the company are professionally qualified individuals who have spent considerable time in various functions of real estate development. The management has significant experience in operations, design and development, finance, marketing, engineering, legal, human resource and business development. For each of the company's major projects, a Project CEO is appointed who ensures better operational efficiency across various functions in project management. In addition, the company continues to leverage the experience of its Promoters and senior management team to grow its business further and strategically target new opportunities.

Keystone Realtors Limited

Business Strategies

Capitalize the 'Rustomjee' brand to expand the asset-light operations.

The asset-light business model, robust stakeholder management, customer-centric brand name, technology stack, trusted vendors and experienced leadership are of seminal importance to the overall strategy to grow the company's operations in MMR. The company intends to leverage its strength and experience in redevelopment, focus on such opportunities in Mumbai's city centre locations and major suburbs, and continue to expand its business by following a disciplined approach with an asset-light model. The company's business model ensures that its initial investment is significantly lower than the revenue potential vis-à-vis buying the land outright to execute a project. It intends to limit the capital deployment and reduce the time from acquisition to launch for swifter monetization of land parcels and redevelopment projects following their attainment.

The company proposes to pursue the asset-light model by continuing to enter into joint development agreements, joint venture arrangements and re-development. As of June 30, 2022, 95.6% and 92.8% of the Developable Area of its Completed Projects and Ongoing Projects, respectively and 77.7% of the estimated Developable Area of the Forthcoming Projects, respectively, were based on the joint development and joint venture or re-development model. The company believes that undertaking projects through joint ventures will provide it with the ability to source premium land at strategic locations with the minimal initial investment, helping it continue to focus on and execute projects with land-owners with existing relationships.

Boost operational efficiency through technological innovation, trustworthy vendors, and effective stakeholder management:

The company endeavours to enhance its capability to deliver more projects, reduce development time and cost, and achieve economies of scale. It continues to focus on developing mechanized and technological construction capabilities to increase the efficiency and quality of projects. It intends to monitor its projects using software and online tools, which will likely reduce project timelines, ensure quality, reduce maintenance expenses and allocate resources promptly. The company proposes to undertake data analytics to identify trends and evaluate customer preferences and demand for particular types of projects and amenities within such projects. The company is improving customer satisfaction and service by continuing to invest in innovation to identify trends and evaluate customer preferences and demand for particular housing types. One such effort is to improve customer experience by migrating them to digital channels.

Leverage its premium category leadership to expand its footprint in the mid and aspirational categories:

The company intends to enhance its presence in the middle-income and aspirational market category by building cost-effective but premium housing solutions for its customers. It plans to leverage its existing market position, execution capabilities and understanding of customer preferences to deepen its penetration in mid-market and aspirational housing categories. In addition, expertise in premium and super-premium development will play a critical role in the planning and execution of the forthcoming projects that the company plans to undertake in the mid and aspirational category, wherein comfort, luxury and quality of projects are designed around the customers' desire to upgrade their quality of living and lifestyle.

Products with a ticket size under INR 70 mn have a market share in terms of supply (in units) of 62%, 80%, 92%, and 100% in South Central Mumbai, Western Suburbs, Eastern Suburbs, and Thane in 2017 to 2021, suggesting that these categories are predominant in these micro-markets in terms of supply. The company's in-depth understanding of the MMR and micro-markets within the MMR, ability to manage stakeholders and ensure a quick turnaround position it well to identify potential land parcels and contract with landowners at competitive terms. It intends to continue to focus on the MMR to capitalise on its expertise and brand name in the Mumbai residential market.

Explicit focus on key growth areas near upcoming infrastructure projects, as well as easing of Coastal Regulation Zone norms:

Keystone plans to focus on several key growth areas, such as the Western Suburbs and Navi Mumbai, by focusing on increased demand for real estate arising from upcoming transportation infrastructure projects and the relaxation of Coastal Regulation Zone norms that allow for the development of more sea-facing properties. It emphasizes opportunities for sea-front properties due to the relaxation of Coastal Regulation Zone norms in the Western Suburbs. With its experience in the premium and re-development categories, it intends to capitalise on these trends and changing demands to be selected as the preferred developer for such properties. It believes these projects will allow it to command greater pricing power and realise profits due to an increasing preference for sea views.

Focus on sustainability:

The company assesses the environmental impact of its projects and has adopted a comprehensive approach to sustainable development from an early design phase through the construction period. It also endeavours to incorporate environmental-friendly elements as part of its future development projects. For instance, during the construction phase, it intends to rely on solar photovoltaic panels to generate electricity from the solar energy to support the project construction and implement more energy-saving dimmable motion-sensing lights to reduce the energy expended for illumination. It intends to rely on grid solar photovoltaic panels and solar heaters for common lighting areas and water heaters, respectively, as well as segregate wet and dry waste and install organic waste converters for wet waste treatment and enhance the sewage treatment technology and harvest rainwater to produce more treated water for irrigation of landscape and flushing purpose. It aspires to obtain LEED certifications from the Indian Green Building Council for its projects in forthcoming projects.

Keystone Realtors Limited

Key Strengths

- Keystone is one of the prominent real estate developers in the micro markets it is in, namely Juhu, Bandra East, Khar, Bhandup, Virar and Thane and can command premium pricing in the MMR micro-markets where its projects are located.
- The company has experience developing lifestyle projects, high-value standalone buildings, gated communities and fully integrated townships, re-developments and stalled projects. It has a diversified portfolio of products across a wide range of price points and its presence in several micro markets.
- It has an asset-light and scalable model resulting in profitability and stable financial performance.
- It is characterised by demonstrated project execution capabilities with in-house functional expertise.
- Robust stakeholder management capabilities across the spectrum of project development.
- Technology-focused operations result in operational efficiency and enhance customer experiences.
- Experienced Promoters, qualified senior management, good corporate governance and a committed employee base.

Key Risks

- The company's business and profitability depend significantly on the real estate market's performance generally in India, particularly in the Mumbai Metropolitan Region. Varying market conditions in the MMR may affect its ability to ensure the sale of projects and the pricing of units in such projects, which may adversely affect the results of its operations and financial condition.
- Significant increases in prices, including increases in taxes and levies or shortage of or delay or disruption in the supply of construction materials, could adversely affect estimated construction cost and timelines and result in cost overruns.
- Shortage of land for development in the MMR or a significant increase in the cost of such land or transferable development rights available for development in the MMR may adversely impact its business prospects and financial performance.
- The company's business is capital intensive, requires significant expenditure for real estate project development, and is therefore dependent on the availability of real estate financing, which may not be available on terms acceptable to it in a timely manner or at all.
- There are certain outstanding litigation proceedings involving the Company, its Subsidiaries, Joint Ventures, Associates, Directors and Promoters, an adverse outcome that may negatively impact its reputation, business, financial condition, results of operations and cash flows.
- The company does not own the brand name 'Rustomjee', registered in the name of its Promoter Mr Boman Rustom Irani. This may be terminated under certain circumstances. If it has to discontinue using the brand name 'Rustomjee' or the logo, it may adversely affect its business and financial condition.
- The business and growth plan could be adversely affected by the incidence and change in the rate of property taxes and stamp duties.

Keystone Realtors Limited

Outlook and Valuation:

Keystone Realtors Ltd is one of the prominent players in the real estate sector in India and presents across the Mumbai Metropolitan Region with comprehensive, affordable projects and premium & super-premium categories. The company has an asset-light business model and is involved in redevelopment projects and also projects under joint partners. The company has been aggressively reducing debt and has successfully bought down its net debt-to-equity ratio from 7.7x in FY20 to 1.1x as of June 30, 2022. the company is expected to partially utilize the IPO fund to reduce the debt on the books further while balancing its new projects in the pipeline. The leverage ratio is expected to remain stable at ~1.1x going ahead. On the margins front, the company has ample scope for expansion as the current margins include few one-off expenses, which impacted the margins. Thus, the management is confident to deliver competitive margins in the coming years. Keystone has reported a growth of 61.7% CAGR over FY20-22 in pre-sales. As a result, the realty industry is expected to see a healthy uptick in redevelopment projects. Thus, Keystone, under its brand name Rustomjee is a strong player; the company will benefit from the opportunities available supported by its joint partners. With changing lifestyles and increasing importance to the quality of living, the real estate sector is witnessing a strong demand for residential projects, especially in metropolitan areas, which will be a massive opportunity for the organized and branded players, one of which is Rustomjee we believe.

The company's objective of the offer is a) to repay full/ part of its borrowings availed by the company and its subsidiaries and b) to fund the acquisition of future real estate projects. Keystone's IPO size is INR 6,350 Mn. The price band of the issue is INR 514-541 per share. On the upper price band of INR 541 and EPS of INR 14.0 for FY22, the P/E ratio is 38.8x. The current value is appealing from a long-term viewpoint, given the average industry P/E of 96.5x, according to the company RHP. The company is trading at a P/B ratio of 5.8x its FY22 book value, with the highest RONW among its peers at 15.0%. **With a strong brand and upcoming construction opportunities, we believe it is well placed, and as a result, we recommend that Keystone Realtors Ltd IPO be rated 'SUBSCRIBE'.**

Peer Comparison:

Based on the peer group information (excluding the Company) given below in this section, the highest P/E ratio is 216.8x, while the lowest P/E ratio is 30.8x . As a result, the average P/E ratio is 96.5x.

As per the company's prospectus, comparison of accounting ratios with listed industry peers:

Name of the company	Revenues in Mn	Adjusted EBITDA in Mn (including other income)	EBITDA margin ^s	Interest Coverage Ratio FY22 (x)	Debt to Equity FY22 (x)	EPS for FY22 (INR)	RONW for FY22	P/E (x)
Keystone Realtors Ltd	12,694	2,107	16.6%	2.3	1.4	14.0	15.0%	38.8
Peer Group								
Macrotech Developers Ltd	92,332	24,717	26.8%	1.9	0.9	26.3	10.3%	36.4
Godrej Properties Ltd	18,249	7,052	38.7%	2.1	0.5	12.7	4.1%	102.0
Oberoi Realty Ltd	26,940	14,794	54.9%	8.0	0.3	28.8	10.1%	30.8
Sunteck Realty Ltd	5,131	1,174	22.9%	1.4	0.3	1.8	0.9%	216.8

Source: IPO Prospectus

Note: *Considering the upper price band

Keystone Realtors Limited

Financials:

Income Statement (INR Mn)	FY20	FY21	FY22	Q1FY23
Total Revenue from Operations	10,746	13,107	16,110	4,192
YoY Growth (%)		22.0%	22.9%	25.5%
EBITDA	946	1,448	1,395	308
EBITDA Margin (%)	8.8%	11.0%	8.7%	7.4%
Other Income	84	115	105	47
Depreciation	342	331	383	111
EBIT	688	1231	1117	244
Interest expense	51	30	67	26
PBT	636	1201	1050	218
Tax	73	298	290	61
PAT	564	903	760	157
EPS (INR)	2.3	3.7	3.2	0.7

Source: IPO Prospectus, KRChoksey Research

Balance Sheet (INR Mn)	FY20	FY21	FY22	Q1FY23
Equity Share Capital	1,000	1,000	1,000	1,035
Other Equity	3,273	7,009	8,326	9,609
Total Shareholders' Funds	4,273	8,009	9,326	10,645
Non-controlling interest	-1,472	229	305	203
Total Equity	2,801	8,238	9,631	10,848
Borrowings	25,139	12,203	15,580	14,688
Non-current Liabilities	0	0	0	0
Provisions	479	418	277	259
Trade Payables	3,030	2,366	3,082	3,789
Other Financial Liabilities	2,702	2,980	2,660	2,350
Current Tax Liabilities	49	1	705	267
Other current Liabilities	9,953	10,335	6,834	6,899
Total Equity & Liabilities	44,153	36,541	38,768	39,102
Assets				
Cash and Cash Equivalents	3,549	1,530	597	1,382
Bank Balance	372	1,300	1,741	1,420
Trade Receivables	639	367	1,136	598
Inventories	27,652	21,926	22,543	22,639
Other current assets	1,664	1,288	1,809	2,130
Other Financial Assets	5,480	2,711	3,580	3,648
Total Current Assets	39,357	29,122	31,406	31,817
Current Tax Assets (net)	1,117	591	643	657
Property, Plant and Equipment	56	33	33	34
Right of Use Assets	0	0	44	38
Capital work-in-progress	0	4	0	0
Deferred Tax Assets	876	388	386	381
Goodwill	1,546	158	158	158
Other Non-Financial Assets	1,202	6,245	6,099	6,016
Total Non-Financial Assets	4,796	7,419	7,362	7,284
Total Assets	44,153	36,541	38,768	39,102

Source: IPO Prospectus, KRChoksey Research

Keystone Realtors Limited

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